INTRODUCTORY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB

Frankfurt am Main, 21 January 2021

Jump to the transcript of the questions and answers

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Executive Vice-President, Mr Dombrovskis.

The start of vaccination campaigns across the euro area is an important milestone in the resolution of the ongoing health crisis. Nonetheless, the pandemic continues to pose serious risks to public health and to the euro area and global economies. The renewed surge in coronavirus (COVID-19) infections and the restrictive and prolonged containment measures imposed in many euro area countries are disrupting economic activity. Activity in the manufacturing sector continues to hold up well, but services sector activity is being severely curbed, albeit to a lesser degree than during the first wave of the pandemic in early 2020. Output is likely to have contracted in the fourth quarter of 2020 and the intensification of the pandemic poses some downside risks to the short-term economic outlook. Inflation remains very low in the context of weak demand and significant slack in labour and product markets. Overall, the incoming data confirm our previous baseline assessment of a pronounced near-term impact of the pandemic on the economy and a protracted weakness in inflation.

In this environment ample monetary stimulus remains essential to preserve favourable financing conditions over the pandemic period for all sectors of the economy. By helping to reduce uncertainty and bolster confidence, this will encourage consumer spending and business investment, underpinning economic activity and safeguarding medium-term price stability. Meanwhile, uncertainty remains high, including relating to the dynamics of the pandemic and the speed of vaccination campaigns. We will also continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term inflation outlook. We continue to stand ready to adjust all of our instruments, as appropriate, to ensure that inflation moves towards our aim in a sustained manner, in line with our commitment to symmetry.

Against this background, we decided to reconfirm our very accommodative monetary policy stance.

First, the Governing Council decided to keep the key ECB interest rates unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2 per cent within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

Second, we will continue our purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,850 billion. We will conduct net asset purchases under the PEPP until at least the end of March 2022 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over.

The purchases under the PEPP will be conducted to preserve favourable financing conditions over the pandemic period. We will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. In addition, the flexibility of purchases over time, across asset classes and among jurisdictions will continue to support the smooth transmission of monetary policy. If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation.

We will continue to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Third, net purchases under our asset purchase programme (APP) will continue at a monthly pace of €20 billion. We continue to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Finally, we will continue to provide ample liquidity through our refinancing operations. In particular, our third series of targeted longer-term refinancing operations (TLTRO III) remains an attractive source of funding for banks, supporting bank lending to firms and households.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Following a sharp contraction in the first half of 2020, euro area real GDP rebounded strongly and rose by 12.4 per cent, quarter on quarter, in the third quarter, although remaining well below pre-pandemic levels. Incoming economic data, surveys and high-frequency indicators suggest that the resurgence of the pandemic and the associated intensification of containment measures have likely led to a decline in activity in the fourth quarter of 2020 and are also expected to weigh on activity in the first quarter of this year. In sum, this is broadly in line with the latest baseline of the December 2020 macroeconomic projections.

Economic developments continue to be uneven across sectors, with the services sector being more adversely affected by the new restrictions on social interaction and mobility than the industrial sector. Although fiscal policy measures are continuing to support households and firms, consumers remain cautious in the light of the pandemic and its impact on employment and earnings. Moreover, weaker corporate balance sheets and uncertainty about the economic outlook are still weighing on business investment.

Looking ahead, the roll-out of vaccines, which started in late December, allows for greater confidence in the resolution of the health crisis. However, it will take time until widespread immunity is achieved, and further adverse developments related to the pandemic cannot be ruled out. Over the medium term, the recovery of the euro area economy should be supported by favourable financing conditions, an expansionary fiscal stance and a recovery in demand as containment measures are lifted and uncertainty recedes.

Overall, the risks surrounding the euro area growth outlook remain tilted to the downside but less pronounced. The news about the prospects for the global economy, the agreement on future EU-UK relations and the start of vaccination campaigns is encouraging, but the ongoing pandemic and its implications for economic and financial conditions continue to be sources of downside risk.

Euro area annual inflation remained unchanged at -0.3 per cent in December. On the basis of current energy price dynamics, headline inflation is likely to increase in the coming months, also supported by the end of the temporary VAT reduction in Germany. However, underlying price pressures are expected to remain subdued owing to weak demand, notably in the tourism and travel-related sectors, as well as to low wage pressures and the appreciation of the euro exchange rate. Once the impact of the pandemic fades, a recovery in demand, supported by accommodative fiscal and monetary policies, will put upward pressure on inflation over the medium term. Survey-based measures and market-based indicators of longer-term inflation expectations remain at low levels, although market-based indicators of inflation expectations have increased slightly.

Turning to the **monetary analysis**, the annual growth rate of broad money (M3) increased to 11.0 per cent in November 2020, from 10.5 per cent in October, reflecting a continued increase in deposit holdings. Strong money growth continued to be supported by the ongoing asset purchases by the Eurosystem, which remain the largest source of money creation. In the context of a still heightened preference for liquidity in the money-holding sector and a low opportunity cost of holding the most liquid forms of money, the narrow monetary aggregate M1 has remained the main contributor to broad money growth.

Developments in loans to the private sector were characterised by moderate lending to non-financial corporations and resilient lending to households. The monthly lending flow to non-financial corporations remained very modest in November, continuing the pattern observed since the end of the summer. At the same time, the annual growth rate remained broadly unchanged, at 6.9 per cent, still reflecting the very strong increase in lending in the first half of the year. The annual growth rate of loans to households remained broadly stable at 3.1 per cent in November, amid a sizeable positive monthly flow.

The new bank lending survey for the fourth quarter of 2020 reports a tightening of credit standards on loans to firms. This tightening was mainly driven by heightened risk perceptions among banks, in a context of continued uncertainty about the economic recovery and concerns about borrower creditworthiness. Surveyed banks also reported a fall in loan demand from firms in the fourth quarter. The survey also indicated a further increase in net demand from households for loans for house purchase in the fourth quarter, even though credit standards continued to tighten.

Overall, our policy measures, together with the measures adopted by national governments and other European institutions, remain essential to support bank lending conditions and access to financing, in particular for those most affected by the pandemic.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is necessary to support economic activity and the robust convergence of inflation to levels that are below, but close to, 2 per cent over the medium term.

Regarding **fiscal policies**, an ambitious and coordinated fiscal stance remains critical, in view of the sharp contraction in the euro area economy. To this end, continued support from national fiscal policies is warranted given weak demand from firms and households relating to the worsening of the pandemic and the intensification of containment measures. At the same time, fiscal measures taken in response to the pandemic emergency should, as much as possible, remain targeted and temporary in nature. The three safety nets endorsed by the European Council for workers, businesses and governments provide important funding support.

The Governing Council recognises the key role of the Next Generation EU package and stresses the importance of it becoming operational without delay. It calls on Member States to accelerate the ratification process, to finalise their recovery and resilience plans promptly and to deploy the funds for productive public spending, accompanied by productivity-enhancing **structural policies**. This would allow the Next Generation EU programme to contribute to a faster, stronger and more uniform recovery and would increase economic resilience and the growth potential of Member States' economies, thereby supporting the effectiveness of monetary policy in the euro area. Such structural policies are particularly important in addressing long-standing structural and institutional weaknesses and in accelerating the green and digital transitions.

We are now ready to take your questions.

* * *

President Lagarde, I have a question regarding the favourable financing conditions. You've been elaborating on the tightening of financial conditions in Europe, bank lending surveys, so how concerned are you about that tightening, and if that tightening were to continue, would that mean that the financing conditions are no longer favourable?

My second question is on the economy and the renewed lockdowns in major economies in the euro zone, whether this is affecting your economic outlook at all, because it doesn't really seem to in your text, and also how concerned are you about the creation of zombie companies in that context?

Well, thank you so much, and you actually give me a chance to reverse the order of your questions, because I would like to address the second part of your question, which had to do with the economic outlook, because I think that it in a way determines what was decided today at our monetary policy Governing Council. And when, you know, we look at the current economic situation, we are clearly seeing mixed developments and those mixed developments apply to countries, member states, that have been affected in different ways and to different degrees by the pandemic.

So, if I was to sort of put in two categories the developments that we are seeing, you have the positive developments and the not-so-positive developments, and as part of the positive, I would certainly say, number 1, the fact that the vaccination campaign has now started, now albeit with some difficulty to begin with, but it has now started, we have two vaccines approved, and probably a third one to come. That's a first positive. I would say my second next positive is that an agreement was found between the EU and Brexit and that clearly has to be taken into account, given that our December projections, which were predicated on the same basis as the European Commission, assumed that there would be no agreement and that it would be a WTO blunt agreement. Third positive, the fact that European leaders have now reached complete agreement and removed the last hurdles to the Next Generation EU issuance at the EU level, and that really provides some certainty as to the fiscal stimulus that will be coming in the months and years to come. It's not completed and clearly the ratification process has to be completed for the own resources to be made available and to therefore permit the joint borrowing by the member states and then the RRP, the recovery and resilience plans have to be submitted in due course as well. But it's a positive that has now been confirmed. I would list as part of the positives as well the fact that in the euro area, manufacturing is clearly on a recovery path and when we look at the manufacturing PMI it's clearly in positive territory. And finally, particularly the day after the inauguration of the new US President, the uncertainty that related to the election of the Georgia senators that clearly had an impact on the majority in the Senate was also removed. So, that would be my category of the positives.

If I look now at the not-so-positive elements, clearly, the pandemic has worsened in many countries. Lockdowns have been tightened and for some of them extended, and the new variants, from the UK, from South Africa, from Brazil, could require some more stringent measures going forward. The incoming data suggests that activity likely declined in the fourth quarter of 2020, which will have a bearing on the first quarter of 2021, and, you know, whether we look at mobility data, whether we look at services PMI, whether we look at retail sales, those are numbers that have declined in the last quarter of 2020. In that context, inflation numbers remain extremely weak. We know that the December number is minus 0.3 percent. We also expect that the early numbers in 2021 will turn most likely positive for mechanical reasons that have to do with the German VAT rate, that have to do with the energy prices. But you know, domestic pressure, domestic prices will continue to be subdued, owing to weak demand, owing to labour market slack, and the euro exchange rate appreciation. So that's the landscape against which we have decided, you know, to reconfirm the monetary policy decisions that were made in December. And we do that against a projection which was announced in December, which we will revisit for the next monetary policy meeting in March, but which we consider as still broadly valid, on the basis of the pluses and minuses that I have mentioned before. But all of that is clearly tilted to the downside. We still have a lot of uncertainty about, you know, the current pandemic, about its development, about the lockdown measures, the containments, their length, and our forecast, our projection from December, which we believe is still valid, was predicated on lockdown measures continuing through the whole of the first quarter of 2021, and vaccination progressing very gradually. So, these hypotheticals are being confirmed by what we see at the moment. But in the light of that, what we have decided is to reconfirm our December monetary policy decisions, and, you know, in doing so, we are very focused and very attentive to all developments, and are ready to adjust if necessary, our pace of purchases, I'll come to that in a second, but also ready to adjust and use all the instruments that we have available in the toolbox. So, that's our framework at the moment.

And I'll now zoom into the question that you asked about favourable financing conditions, because this is clearly the compass that we want to use that is clearly anchored onto inflation, and I'm just going to reread for you, because to me that's the key sentence if you will, that some of you I'm sure have identified. We say, "[p]urchases under the PEPP will be conducted to preserve favourable financing conditions over the pandemic period." So, "over the pandemic period" is at least until the end of March 2022, or any such time when the Governing Council considers that the pandemic is to discontinue, and clearly that means that we will be present in the markets until the end of March 2022 at least. The second sentence matters enormously as well, it says, "We will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation." So, favourable financing conditions is the compass, but the anchor is clearly the projected path of inflation and the necessity to counter the downward impact, that the pandemic has had on the inflation path.

So how do we identify whether or not we are in the presence of favourable financing conditions? Well, I would say first of all that it is based on a holistic and multifaceted approach, our assessment, and it is intended for all sectors. So, all sectors means households, SMEs, corporates, sovereigns. And we look at the financing conditions and as a result of that we look at the bank lending rates. We look at the credit conditions, we look at the yields of corporates, yields of sovereigns, and it's this composite approach and this multiple-indicators approach that we take into account to determine whether the financing conditions are favourable or not. But don't forget that favourability is always assessed relative to inflation dynamics. So, we have to decide whether the financing conditions are appropriate to return inflation to its pre-pandemic path. So, those are really, I'd like to think in terms of this, the compass and the anchor and the two of them interact in order to assess whether or not we need to adjust and calibrate our purchases of any period. Because don't forget that PEPP is intended to preserve the financing conditions, is earmarked by flexibility, and that flexibility, you've heard me say before, is flexibility along time sequences, flexibility in asset classes, flexibility in countries. And it has this dual function of stance and transmission as well. So, all that remains unchanged and the flexibility is still, you know, one of the key attributes of our PEPP.

Madame President, coming back to this point about preserving the current financing conditions, I'm curious about your commitment and how far it goes, because, you know, Italy went through some political drama last week, but there was little to no market reaction, which was quite surprising, but this of course was self-inflicted, it's a domestic issue and no connection to the pandemic. So, why is the ECB supporting a market in such a case, and is this consistent with the parameters that you just set in the previous question?

My second question relates to yield curve control. Pablo Hernández de Cos, the president of the Bank of Spain, said this is something that the ECB should consider. What is your view of such a proposal, and what is your reply to endless commentary that in fact the ECB's already doing de facto yield curve control, without saying so? Thank you.

Let me just again restate what we are doing which, by definition, will tell you what we're not doing. Our aim is to preserve favourable financing conditions in the euro area, and we want to do that because we believe that it will support consumer spending, it will support investment spending, and ultimately it will help achieve our mandate of price stability. And as I said, our assessment of favourable financing conditions is not driven by any single indicator. It is a holistic approach, it takes into account multiple indicators, and, you know, bank lending is one, credit conditions is one, corporate yields is one, sovereign bond yields is one, and it's by combining all of those that we try to assess whether the financing conditions are favourable or not. Now, obviously, government bonds yields play an important benchmark role for the pricing of credit in the economy. But at the moment we do not see that development in any particular yields pose an issue for euro-area-wide financing conditions. And that really, I think, my answer actually tackles your two questions. We're not riveted to any particular yield. We take into account multiple indicators that relate to the financing of the economy, and as I said, we believe that financing conditions are currently broadly favourable on the basis of that multifaceted, holistic assessment that we do of those very indicators that I have mentioned.

Many people are a little worried about what will happen to them with the digital euro. Can you encourage them – why the digital euro is good for people like you and me?

Let me just preface what I will say now with the fact that, if and when we have a digital euro, we will nonetheless always have banknotes. So, I don't think that anybody should think in terms of banknotes and coins as opposed to and in substitution of digital euro. So, the two will coexist, and will continue to do so if and when there is a digital euro, and I just want to remind you where we are in that process. We have launched a consultation throughout Europe on 12October which expired on 12January, to which we had over 8,000 responses by multiple respondents, which have all addressed at least two of the questions that were included in the questionnaire. So, we have received a mine of information, which we are currently processing, which will give rise to a report that will be shared, that will be made public and available, because we want that process to be totally transparent. My colleague on the Board, Fabio Panetta, has reported to the European Parliament on that particular matter, and he will report again I'm sure when we have conclusions from that report. But there are lots of questions that have not been resolved and that will, when they are resolved, determine the shape the technology support, the process by which the digital euro will be created, and I want to downplay any expectations that it is about to come. It will take a number of years, it is a complicated issue, it's one that has to be resolved without disrupting the current financial scene, nor jeopardising the monetary policy transmission that we have currently. So, we have not yet either decided what the technology backbone would be ideally in order to support that digital euro. But I would simply observe in response to your question that a digital currency, where it has been piloted, and there is only one which is clearly now launched in a very small country, but it is piloted on a fairly large scale in China, is of use and of service to all citizens. So it is not something that is good for the elite or is good for the young or is good for some versus others. If it is well done and if it is well implemented, it would be of service to all citizens. But clearly we are not there, there are lots of issues that need to be addressed. We need to make sure that that is compatible with monetary policy, with sovereignty, with proper transmission of monetary policy. So, it's clearly a project that is fascinating for some, that corresponds to a demand from citizens. I'll remind you that there are several countries including for instance Sweden, outside the euro area, granted, or the Netherlands, where the use of tangible currency is declining at a very, very fast pace and that has been, as so many other things, that has been accelerated by the pandemic.

President Lagarde, as you mentioned in your introductory statement just now, the latest bank lending surveys suggested that credit standards tightened for loans to enterprises and households. Now, we're seeing that we have these extended lockdowns and a very slow start to vaccinations, and a key risk for the euro area is actually a wave of defaults in banks. So, how

is the ECB thinking about this with regard to the effectiveness of its TLTRO programme, given that these are supposed to encourage banks to lend, and at the same time that lending can expose them to bigger risks?

And secondly, the account from your last meeting also showed that some reservations were expressed about how much the TLTRO borrowing allowance should be increased, so can you give us an idea of what the Governing Council's latest thinking is on what limitations exist as to how much policy can or should be eased to the TLTROs, and whether there's any concerns about being seen as excessively subsidising the banking system?

Thank you for your question on TLTRO, essentially. Let me remind you what TLTRO III is intended for. It is intended to continue to support the financing of the economy and the fuelling of credit throughout all segments of the economy and in particular of course the non-financial corporate sector. But it includes also, you know, multiple segments of lending. So, it was constructed with a view to making financing available at sufficiently attractive conditions that banks would be actually encouraged to respond to the demand that they would be getting from their clients essentially, and when you look at the numbers of the second quarter, and particularly the second TLTRO III [in 2020], and the take-up that we had at that time, which exceeded by far all the expectations, and even the following TLTRO that was also in excess of what the forecast expected, it is clear that it has encouraged lending by banks, and when they are consulted actually, when you look at the bank lending survey, this one and the previous one, all banks surveyed actually say generally that TLTRO has actually helped them, and encouraged them to provide lending to the economy. Now, clearly, at the same time, banks have to be mindful of the economic circumstances, banks have to be mindful of the particular situation of their respective clients. They have to appreciate what kind of moratoria will apply, what kind of guarantees there will be, and they need to do their risk assessment as they were reminded by the supervisory side of the ECB most recently. So, it's with that background that lending is available, but clearly to be used under the responsibility of the banks that have to continue to do their proper risk assessment, in view of the financial stability risks that are out there. Now, we had a good discussion about the expansion and extension, if you will, of TLTRO at our December meeting, and we came to the conclusion that it should be extended over time, that we should have three new operations, and that the volume that banks could be allowed to borrow against would be moved from 50 to 55 [percent of their stock of eligible loans]. And that's how we are proceeding, we are reconfirming those decisions, and we continue to remain obviously very attentive to the actual lending. We observe by the way that the lending rates are at the lowest levels they've ever been, or pretty much, that's 1.50 percent for corporates, 1.35 for households. It's really favourable financing conditions by all accounts, and certainly TLTRO has contributed to that as well.

The US looks likely to launch a major stimulus under President Biden, but as things stand, most euro zone countries are planning to reduce their fiscal stimulus this year. Do you think they need to do more?

Second question, you've given us a little bit more of a feel for what you mean by favourable financing conditions, but do you think you need to define that more clearly, your reaction function, just as the previous ECB President, Mario Draghi, did in his Amsterdam speech in

2014, and actually outline exactly how you would react under different circumstances? Thank you very much.

Concerning the fiscal stimulus, I would observe that both from a monetary point of view and from a fiscal point of view, it is necessary to continue to be accommodative. The situation is sufficiently uncertain that fiscal needs to be continued at the national and at the European level for the region to, defeat the pandemic would be nice, but certainly to counter the downward impact of the pandemic on the growth of the economy, obviously on prices, and inflation. So, we believe that fiscal has to be continued. The probably slight qualification that we would have, which I think is also in the introductory statement, is that we certainly recommend that it be made as targeted as possible, and temporary, given that we all hope that, thanks to those combined policies, we will see a recovery during the course of 2021, probably second half more than the first half, and then continuing throughout 2022. But fiscal policy has to continue being supportive of the economies. Let me also observe that combining the national efforts that have been undertaken, both in terms of discretionary additional fiscal support, and in terms of guarantees, which if, you know, put together, are in the range of 24 percent, roughly, of GDP, if you combine that, plus the threefold package that was approved initially in April, of, you know, the SURE programme, the ESM programme, and the EIB additional guarantee programme, for a total of €540 billion euros, and the combination of the Recovery and Resilience fund, and the MFF, the multiannual budget, you arrive at a global package which is significant. And your question actually prompts me to once again to reiterate the fact that it needs to be rolled out. It has now been decided, it has been an extraordinary breakthrough for the Europeans at large, that there is this joint borrowing, but it needs to be rolled out promptly, and hopefully we will see the disbursement in the course of 2021 in order to support some of the commitments that are made and some of the identified investments that are proposed by the countries. So, it’s a question of the ratification process for the own resources, and a question of the recovery and resilience plans, which have to be submitted as well. But on the fiscal front, I think that nationally and regionally there is that joint effort, which is significant, which is there, for which there is a political will of 27 countries, which is always a bit of a challenge as opposed to when you have one fiscal authority and one single country as is the case in the US. And on that page, I would really want to take this opportunity to wish my colleague and friend, Janet Yellen, the very best in her endeavour to lead the US economy in the way that only she can do it, inclusively and very smartly.

Your second question had to do with, I forgot now, because I got carried away with this fiscal aspect. You wanted to know whether I would deliver a speech in Amsterdam to describe precisely with a great level of detail, what we mean by favourable financing conditions. I have no plan scheduled for the moment, but it is pretty obvious that we understand what the general principles of the determination of the favourability of financing conditions are, and I have indicated the reference to holistic, multiple indicators, all sectors, and the key anchoring of my favourable financing conditions compass onto inflation, and how it can be used in order to counter the negative impact the pandemic has had on our inflation path. So, it’s pretty clear what we want to achieve and how we will define those favourable financing conditions. But we will be assessing that on a regular basis, and clearly there will be yet another assessment that will take place in March, and obviously at the time when new projections will be available. So, the anchor of inflation and how it impacts on the compass of the financing conditions will be even more explicit.

President Lagarde, I have two questions. The first question is on the PEPP envelope. In your introductory statement, you're clear that the envelope is not to be used in full, but it can also be recalibrated. Now, the fact that it cannot be used in full comes first, and I don't know if you maybe seem a bit hawkish, I could be mistaken, but can you specify why you included this sentence on the envelope.

And I have also a second question on preserving the favourable financing conditions, and this is on the banks, and on the fragmentation that there can be this year, with the rise of non-performing loans, how the Governing Council is concerned about it, if it is concerned about fragmentation?

I'm going to go back to that same sentence, which, you know, as you can imagine, it has been very carefully drafted and elaborated, and there's one word that I would call your attention to, and it is the word "equally". So, that sentence which is following the one that I read earlier, so I will not impose yet another reading, although I love to read, but this one says, "If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full." Full stop, and that word's important. "Equally", so what we signal with "equally" is, it's a balancing act. If, and I'll read the sentence, "Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation." So, I think it goes, I don't need to re-explain yet again, as I said, our compass, driving force, is the favourable financing conditions. The anchor is the countering, the downward impact on inflation, on our inflation path, the downward impact of the pandemic on the inflation path, and if we determine that the financing conditions are favourable, then we adjust. If, on the other hand favourable financing conditions cannot be preserved, as the pace of purchase has been decided, we will adjust upward. And if the envelope is not sufficient, then we will recalibrate the entire envelope. So, I can't be clearer than that. It's really identified with a very high degree of flexibility and the capacity to adjust, because we are prepared to adjust all our instruments, not just the pace of purchases. We're prepared to adjust all instruments. Nothing is off the table. Nothing is off the table.

You had a second question on bank fragmentation. You know, our mandate is price stability in the euro area. So, when you, when I hear the word "fragmentation", I think about monetary transmission, throughout the whole of the euro area, throughout the member states. And that is a driving, that is also a key function. It's one of the two functions of PEPP in particular under the extraordinary circumstances that we are going through. Non-performing loans, this is a matter that clearly belongs to the supervisory arm of the ECB, and as you know, Andrea Enria has been very explicit about non-performing loans, he's been very explicit about what the banks should do, in order to recognise non-performing loans. He's been very explicit as well about the asset management companies, or company, whether it's a combination of national levels and a holding at the European level, or a European entity and I will not venture in that particular field, because it belongs to the supervisory side and, as you know, we have a division of labour here at the ECB.

I wanted to know if you see the strengthening of the euro more or less as a threat that it was in December, and a second question, I was wondering if you could give a market assessment, any

advice on how to know whether the ECB is going to use the full PEPP envelope or not, I see this holistic and multifaceted approach a bit confusing.

Well, I'm really sorry that you see it as confusing, because it's not intended to be confusing, so let me restate again. We have an envelope of €1,850 billion that is available, that can be used flexibly, depending on whether or not we reach our objective of preserving favourable financing conditions. If we don't need to use the whole envelope, because the financing conditions will have remained favourable, nonetheless, we will not use the entire envelope. If on the other hand we need more than the envelope, because the favourable financing conditions have not been favourable and preserved as such, then the envelope will be reconsidered and recalibrated. So, flexibility is the key word. The other point that I made earlier on is that we have not only expanded PEPP, back in December, we have extended PEPP over the course of time. So, until March 2022, you can expect the ECB to be present in the market. And, you know, it is not going to be linear, it is not going to be a fixed amount, so yes, we will have to look carefully at the financing conditions, and those people in the market understand as well when and how financing conditions can evolve and change. So, it's not as simplistic as a linear, fixed amount, but it's also driven by the fact that we want to be able to maintain favourable financing conditions, because this, we believe that this will actually induce consumers to spend, investors to invest, and ultimately economy to fare better and inflation to go up towards our aim, therefore helping us deliver on our mandate of price stability. So, I hope to have clarified a little bit for you what you felt was confusing, and to have, I hope to have removed a bit of that confusion.

On the strength of the euro, let me just tell you that we are monitoring very carefully exchange rates, very carefully, because we know that exchange rates have an impact on prices, and clearly play a part in our inflation forecast, and what we can deliver with our monetary policy. So, we are very attentive, and as I said earlier on, all instruments can be adjusted and nothing is off the table.

The first question was on how you see the outlook for the first quarter of this year. Are you currently, given the social restrictions, it seems quite clear are going to last until Easter, in a lot of countries, are you expecting a contraction? I mean, how big do you expect the impacts of these social restrictions to be?

The second question, I'm sorry to press this point again, but it was about this €1.85 trillion, and the fact that you said in the opening statement, I see that it's an even-handed statement, but the fact that you mentioned specifically that you might not use it all suggests there was some kind of discussion about that. Was there a feeling within the Governing Council that you were tilting one way or the other, that actually you might not need to use the whole package, because you're cautiously optimistic, for instance? Thank you.

I wish I was cautiously optimistic. I think I'm now getting old enough to be realistic and to observe the development of the situation, which is really hard to predict, and really hard to forecast. I think what we are observing on a preliminary basis, because this will really be the subject of our March monetary policy Governing Council meeting, but what we are observing is a decline in growth in Q4, and as we all know, when you have a decline in Q4, when you have negative numbers, negative numbers, we'll see that decline in Q4 will travel into Q1 and will also impact the economic outcome for Q1, added to which, as you've said, there are more containment measures, there are intensifications of lockdowns. Now, lucky or not, but we had anticipated the continuation and the lockdown measures that are currently in place, not to the curfew hour, if you will, but certainly it was included in our forecast, and that leads us to conclude that our forecast for 2021, around 4 per cent, 3.9 if I recall, is still broadly valid at this point in time. But the short-term risk is tilted to the downside, as well, no question about it, uncertainty is in the air. So, we shall see, but we don't have enough clear, hard numbers yet to revise in any way. All I can tell you is that our forecast for 2021 is still holding as we speak.

You know, I hate to read yet again, so I won't do it, I fear of being accused of reading so much. But, as we have discussed in December, we have expanded the volume of PEPP, from €1,3[50] to €1,850 billion, we have extended the duration, because we believe that, because of the contagion, current developments, because of the containment measures, we believe that an extended period of time is warranted, and we have associated those two measures, expansion and extension, with a variable, which is favourable financing conditions. This is what we strongly believe in, and we have hope that favourable financing conditions will continue and will be sustainable going forward, but we have to be prepared for all options, as a result of which we have identified that envelope, which is either not going to have to be used, if we meet the requirement of the favourable financing conditions, or which will have to be increased, recalibrated, if more is needed in order to respond to this expectation of the favourable financing conditions. I can't tell you more than that, it's a package, it came together, with TLTRO, which was also increased in volumes and extended over time. It comes on the back of very low interest rates. So, it's a whole package, which, if coupled with our forward guidance, which is also very explicit, forms our monetary policy at this point in time.

CONTACT

European Central Bank

Directorate General Communications

- Sonnemannstrasse 20
- 60314 Frankfurt am Main, Germany
- +49 69 1344 7455
- media@ecb.europa.eu

Media contacts